

MINUTE ITEM

This Calendar Item No. C50  
was approved as Minute Item  
No. 50 by the State Lands  
Commission by a vote of 3  
to 0 at its 11-9-93  
meeting.

CALENDAR ITEM

C50

A 30  
S 14 (Old)  
16 (New)

11/09/93  
PRC 3650  
Nitsche

APPROVE AMENDMENT TO  
STATE COMPENSATORY ROYALTY  
AGREEMENT PRC 3650  
MADERA COUNTY

LESSEE AND OPERATOR:

Vern Jones Oil & Gas Corporation  
Attn: Patrick A. Rogers  
555 University Avenue, Suite 180  
Sacramento, CA 95825

AREA, TYPE LAND AND LOCATION:

The Compensatory Royalty Agreement was issued for the purpose of compensating the State for drainage of resources underlying the bed of the San Joaquin River between Fresno and Madera Counties in the "Gill Ranch Field" area.

APPLICANT STATUS:

Applicant is lessee of privately owned uplands.

BACKGROUND:

State Compensatory Royalty Agreement PRC 3650 was issued to Shell Oil Company (Shell) on October 1, 1966. The "Gill Ranch Field" area consisted of three field wells, "Edison Securities Well 25-22", "Gill Well 13-23" and "Edison Securities Well 85-21", all drilled on private upland. These wells were the original cause of drainage from State lands. Shell, the upland lessee, agreed to compensate the State for its share of the production from the three wells at a royalty rate of 16.667 percent with an acreage allocation based on the ratio of State land owned within a drainage circle of 160 acres for each well. Production allocation among the wells with intersecting drainage circles was determined by dividing the intersected areas of each circle using a perpendicular bisector method. From these allocations, the State drainage area percentage of well 85-21 was 18.18 percent; well 25-22 was 15.54 percent and well 13-22 was 10.94 percent. These wells were produced to depletion and abandoned in 1977.

CALENDAR PAGE	437
MINUTE PAGE	2678

CALENDAR ITEM NO. C50 (CONT'D)

By letter from Vern Jones Oil and Gas Corporation (VJOG) dated September 1, 1992, State Lands Commission (SLC) was informed that Daniel Pickrell and Vern Jones are the successors to Shell as the upland lessees, and that a new field well, "Gill Ranch 1-21", had been placed into production on June 27, 1992, and was subject to the Compensatory Royalty Agreement PRC 3650. The September 1, 1992 letter proposed a "pooling" to allocate production from the well. The final pooled area of 80 acres included the State's 25.9795 acres and resulted in a "State lands percentage" interest of 32.4744 percent.

By letter dated September 24, 1993, VJOG requested that the SLC amend Paragraph 2 of the Compensatory Royalty Agreement to change the royalty due date from the 25th of the month following production to the 5th of the second month following production. The purpose of this change is to provide VJOG adequate time in which to pay the royalty, because VJOG does not receive payment from its gas purchaser until the last week of the month following production. Without the amendment, VJOG cannot make the royalty payment on time.

Staff recommends that Paragraph 2 of Compensatory Royalty Agreement PRC 3650 be amended to change the royalty due date from the 25th of the month following production to the 5th of the second month following production, effective June 1992, the first month of production from PRC 3650, the "Gill Ranch 1-21" well.

**STATUTORY AND OTHER REFERENCES:**

- A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13.
- B. Cal. Code Regs.: Title 3, Div. 3; Title 14, Div. 6.

**AB 884:**

N/A

**OTHER PERTINENT INFORMATION:**

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

CALENDAR ITEM NO. C50 (CONT'D)

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

**EXHIBITS:**

- A. Lease Amendment
- B. Lease Map

**IT IS RECOMMENDED THAT THE COMMISSION:**

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. FIND THAT AMENDING PARAGRAPH 2 UNDER COMPENSATORY ROYALTY AGREEMENT PRC 3650 IS IN THE BEST INTEREST OF THE STATE.
3. APPROVE THE AMENDMENT TO COMPENSATORY ROYALTY AGREEMENT PRC 3650 EFFECTIVE JUNE 1, 1992, AMENDING THE ROYALTY DUE DATE FROM THE 25TH OF THE MONTH FOLLOWING PRODUCTION TO THE 5TH OF THE SECOND MONTH FOLLOWING PRODUCTION.

CALENDAR PAGE	439
MINUTE PAGE	2680

**EXHIBIT A**

**AMENDMENT TO STATE COMPENSATORY ROYALTY AGREEMENT**

**PRC 3650**

State compensatory royalty agreement PRC 3650 was entered into between the State Lands Commission (SLC) and Shell Oil Company on November 28, 1966, to compensate the State for drainage by wells located on private uplands adjacent to State lands in the bed of the San Joaquin River within Madera and Fresno Counties, California. There is now a successor lessee to Shell for the upland wells and the Vern Jones Oil and Gas Corporation is the current operator of the upland wells.

Pursuant to the Commission approval of November 9, 1993, the State Lands Commission and Vern Jones Oil and Gas Company hereby agree to amend Compensatory Royalty Agreement PRC 3650 Amend Paragraph 2 to read: "State's royalties hereunder shall be due and payable not later than the fifth (5) day of the second month following production with respect to gas, gasoline and other products sold or used."

All other terms and conditions of the lease shall remain unchanged and in full force and effect.

**VERN JONES OIL AND GAS CORPORATION**

**STATE OF CALIFORNIA**

A California Corporation

**STATE LANDS COMMISSION**

BY: \_\_\_\_\_

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

NAME: \_\_\_\_\_

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<b>CALENDAR PAGE</b>	<b>440</b>
<b>MINUTE PAGE</b>	<b>2681</b>

